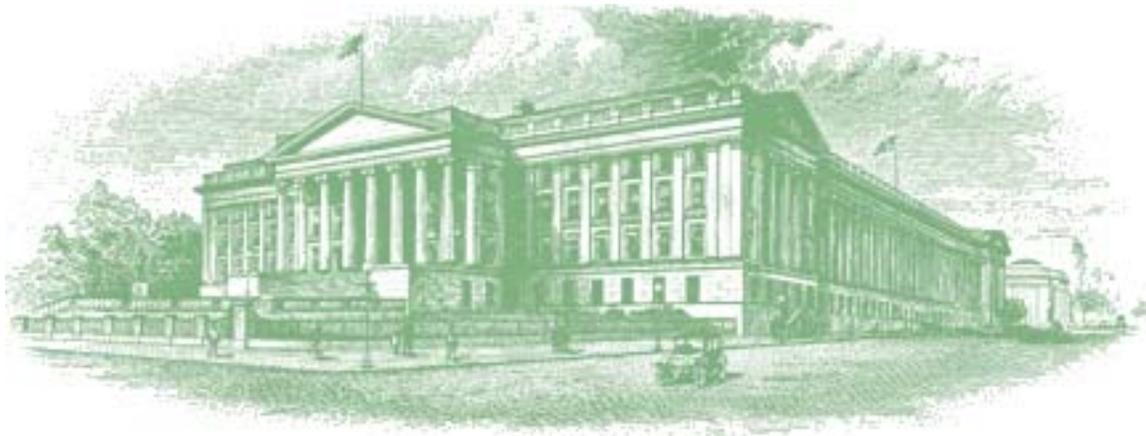




Audit Report



OIG-06-036

MANUFACTURING OPERATIONS: The Mint Needs to Determine Whether Its Long-Delayed A-76 Competition for Coin Blank Production Should Be Continued

August 28, 2006

Office of
Inspector General

Department of the Treasury

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Abbreviations

ASM/CFO	Assist Secretary for Management/Chief Financial Officer
ATO	Agency tender official
BAU	Blanking, annealing, and upsetting
Circular A-76	OMB Circular No A-76 (Revised)
CO	Contracting officer
CSO	Competitive sourcing official
FAR	Federal Acquisition Regulation
GFE	Government-furnished equipment
GFP	Government-furnished property
H.Rep.	House Report
Mint	United States Mint
MEO	Most Efficient Organization
OCS	Office of Competitive Sourcing
OMB	Office of Management and Budget
P.L.	Public Law
PWS	Performance work statement

QASP
Treasury

Quality assurance surveillance plan
Department of the Treasury

*The Department of the Treasury
Office of Inspector General*

August 28, 2006

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Office of Management and Budget (OMB) Circular No. A-76 (Revised), *Performance of Commercial Activities* (Circular A-76) was last revised on May 29, 2003, and reiterates the longstanding policy of the federal government to rely on the private sector for needed commercial services. In general, Circular A-76 requires that federal agencies identify activities performed by government personnel as either commercial or inherently governmental.¹ As appropriate, agencies are then to use a competition to determine whether government personnel should perform a commercial activity.

On October 23, 2003, the United States Mint (Mint) issued *Public Announcement of OMB Circular A-76 Standard Competition Study on United States Mint Preparation of Ready-to-Coin Planchets*, which involved the manufacturing processes of blanking, annealing, and upsetting (BAU) of coin blanks. Under Circular A-76, a standard competition is to be completed and a “performance decision” made within 12 months. As a result, the BAU standard competition performance decision—whether to contract out these manufacturing processes to the private sector or to continue to have Mint personnel perform them—was due by October 23, 2004.

In November 2003, House Conference Report (H. Rep. 108-401) for the Consolidated Appropriations Act, Fiscal Year 2004 [Public Law (P.L.) 108-199], directed our office to perform a study on the potential and cost-effectiveness of expanded use of coin blanks in the production of circulating coins. We were to report on our study

¹ A commercial activity is a recurring service that could be performed by the private sector, while an inherently governmental activity is so intimately related to the public interest as to mandate performance by government personnel.

to the House and Senate Committees on Appropriations by April 1, 2004. In letters dated March 23, 2004, we informed Congress that since the Mint had already publicly announced the BAU standard competition, our study as described in the Conference Report could not be performed because a Circular A-76 standard competition had already begun. On October 29, 2004, we issued an interim audit report, OIG-05-002, *MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete*.

In the interim audit report, we stated that the Mint had not met certain critical intermediate milestones it had established for the BAU standard competition and had not completed it by October 23, 2004, the due date. Nearly 3 years after the Mint announced the BAU standard competition; it continues to experience problems. We are issuing this report to provide Mint management, the Department of the Treasury (Treasury) competitive sourcing official (CSO),² and Congress with the current status of the BAU standard competition, our audit results, and our overall recommendation that the BAU standard competition be revisited because of deficiencies in the Mint's implementation of the standard competition.

The findings in this report are based on the interim audit report and additional work we performed from November 2004 to March 2006 at the Treasury and Mint headquarters in Washington, D.C. Appendix 1 provides a more detailed description of our audit objectives, scope, and methodology.

Results in Brief

We found that the Mint did not adequately plan for or implement the BAU standard competition. Therefore, we believe that the Mint should complete a formal business case analysis to determine whether the activity should still be competed. Our conclusion is based not only on the fact that the Mint did not adequately plan

² A CSO is an inherently governmental agency official responsible for implementing the Circular within an agency. The Treasury CSO is the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO).

the standard competition, but also that it failed to meet Circular A-76's requirement that standard competitions be completed within 1 year of initiation and because it has not complied with several other Circular A-76 requirements. Deficiencies in the Mint's planning and implementation of the BAU standard competition include the following:

- Hiring a contractor to develop the Performance Work Statement (PWS), but changing it
- Publishing a PWS with errors in the specifications for coin blanks
- Not addressing the government-furnished property (GFP)³ approval issue; specifically, the use of potential excess space, as required by Circular A-76
- Not addressing security issues in the draft PWS or draft solicitations
- Issuing a draft Mint directive for conducting A-76 competitions but not following its guidelines
- Obtaining a deviation from OMB from certain A-76 requirements after the allowed time period
- Not obtaining an authorization on the performance bond,⁴ as required by Circular A-76

In addition to these planning and implementation issues, the Mint faces other issues and obstacles to a successful completion of the BAU study, including the following:

- Concerns related to the timing of the transfer of government-furnished equipment (GFE) to new vendors
- More than 300 questions, concerns, and comments received from potential vendors in response to the September 2005 draft solicitation
- Questions raised by the Agency Tender Official (ATO),⁵ who is responsible for the tender and represents the agency tender during source selection

³ GFP consists of facilities, equipment, material, supplies, or other services provided by the government for use by all prospective providers in the solicitation.

⁴ A performance bond is issued by an insurance company to guarantee satisfactory completion of a project by a contractor.

⁵ The ATO for the BAU study is the Denver Mint plant manager.

We recommend that the Mint should expeditiously complete a formal business case analysis to determine whether to continue the standard competition. If, on the basis of the business case analysis, the Mint decides to discontinue the standard competition, the Mint should work with the Department to cancel the BAU standard competition.

In the Mint's August 14, 2006, written response to this report, management acknowledged that better preliminary planning efforts would have led to a more expeditious completion of its complex A-76 public-private competition on BAU coin planchets. The Mint stated that planning prior to competition announcement could have been more extensive; however, it was responding to an inquiry by a Congressional committee regarding the feasibility of purchasing ready-made blanks, and was attempting to be responsive to the President's Management Agenda goal of opening additional commercial activities to public-private competition. The Mint further stated that it did not conduct a formal business case analysis to determine the advantages and disadvantages of conducting a competition, and the optimal method for performing the competition; however, it did conduct examinations, reviews, and inquiries of the BAU activity prior to competition announcement. These other items led the Mint's senior management to a consensus that approximately 30 percent savings could be obtained by performing a competition; therefore, the Mint proceeded to implement a standard competition.

The Mint concurred with our recommendation and will develop a business case analysis to determine if the best course of action is to proceed with the BAU competition or take alternative action to ensure the Mint makes or purchases planchets as efficiently and cost-effectively as possible. However, management did not agree with some of our findings. We provide additional comments to their disagreements at the end of each section of the report where the Mint provided comments.

In conclusion, we agree with the Mint's statement that it lacked experience with OMB Circular A-76 competitions and better preliminary planning could have led to a more expeditious competition. These comments support our conclusion that the Mint

did not properly plan and implement its BAU standard competition. The full text of the Mint's response is provided as Appendix 3.

Background

On October 23, 2003, the Mint issued a public announcement of a Circular A-76 standard competition on the Mint's preparation of ready-to-coin planchets, which involved the manufacturing processes of BAU of coin blanks. Blanks are round disks from which coins are manufactured. For all coins except the penny (for which the Mint purchases ready-made blanks), the Mint buys coiled strips of metal about 13 inches wide and 1,500 feet long. Each coil is fed through a blanking press, which punches out blanks for coins. The blanks are heated in an annealing furnace to soften them. After the blanks are washed and dried, they go through an upsetting mill, which creates a raised rim along their edges. The blanks then go to a coining press, where they are stamped with appropriate designs and inscriptions. Coin blanks are also known as planchets.

Circular A-76 establishes federal policy for the competition of commercial activities. It assigns responsibilities to specific government personnel and identifies additional requirements, such as those in the Federal Acquisition Regulation (FAR),⁶ that are applicable to competitions conducted under Circular A-76. Agency-specific acquisition regulations are to be limited to those necessary to implement FAR policies and procedures within the agency and additional policies, procedures, solicitation provisions, or contract clauses that supplement the FAR to satisfy the specific needs of the agency.⁷ Some of Circular A-76's specific requirements for agencies are detailed in appendix 2.

⁶ The FAR was established to codify uniform policies for acquisition of supplies and services by federal executive agencies. It is issued and maintained jointly by the Secretary of Defense, the Administrator of the General Services Administration, and the Administrator of the National Aeronautics and Space Administration.

⁷ Under its Public Enterprise Fund authority (P.L. 104-52), the Mint is exempt from the provisions of law governing procurement or public contracts (i.e., the FAR) for the procurement of goods or services necessary for carrying out Mint programs and operations. For A-76 competition studies the Mint must comply with the Circular A-76 including applicable provisions in the FAR.

The Mint's Draft Directive MD 2A-2, *Performance of Commercial Activities*, dated in October 2003, established policy and assigned responsibility for implementing Circular A-76 at the Mint. The Policy Section of MD 2A-2 contains specific requirements applicable to the Mint's implementation of Circular A-76.

The FAR requires that agencies conduct market research. The results of this research are to be used to determine whether suitable sources exist and commercial items are available that (1) meet the agency's needs, (2) could be modified to meet the agency's needs, or (3) could meet the agency's requirements if they were modified to a reasonable extent. We believe a business case analysis would include market research.

Each government solicitation contains specifications that describe the contract work. Clear and unambiguous specifications are an essential of the procurement process because vague or otherwise incomplete specifications will not adequately describe the agency's needs and may result in an unacceptable product or service. Ambiguous specifications also restrict competition and invite performance problems. The term "defective specifications" usually refers to a defect or inconsistency in the specifications so severe that performance of the contract as stated cannot be attained by any contractor or can be obtained only at an exorbitant cost. Actual impossibility exists when the contract cannot be performed according to its terms by the contractor or by any other contractor because (1) the contract's specifications are erroneous; (2) the contract's performance requirements can, in no event, be met; or (3) the contractor would be obligated to go beyond the state of the art to attain the requirement.

On April 20, 2005, the Mint requested a deviation from certain Circular A-76 requirements to restart the standard competition, and OMB approved the deviation on July 14, 2005. The Mint re-announced the standard competition on September 16, 2005, but did not change its timetable for completing the standard competition.

The Mint was required to report its fiscal years 2004 and 2005 competitive sourcing costs. The current OMB guidance⁸ identifies 10 types of information; however, only 2 types of costs – the fixed costs of management overhead and the incremental costs directly attributable to conducting a study – are required. The Mint reported spending approximately \$1.3 million for fiscal years 2004 and 2005 on fixed overhead management and the BAU study. The Mint reported just over \$0.8 million in fixed overhead management costs and nearly \$0.5 million in the BAU study.⁹

Finding and Recommendation

The Mint Did Not Properly Plan and Has Not Properly Implemented Its BAU Standard Competition

We concluded that the Mint did not properly plan and has not properly implemented its BAU standard competition. Initially, the Mint intended to conduct a study, or a formal business case analysis, to determine whether coin blanks should be subject to an A-76 standard competition. However, the Mint subsequently decided not to do a study, but to immediately initiate a standard Circular A-76 competition. According to the Mint, this decision was driven largely by Congress's desire to determine whether it would be less expensive for the Mint to buy coin blanks than to continue to make them in-house. As a result of not performing a formal business case analysis study, the Mint did not address a number of issues vital to successful implementation and timely completion of the standard competition. As of the date of this report, nearly 3 years after the Mint initiated the standard competition; a performance decision is still pending. Currently, the Mint plans to complete the standard competition before the end of 2006, or over

⁸ The Consolidated Appropriations Act, Fiscal Year 2004 P.L. 108-199, established a government-wide requirement for each executive agency to report to Congress on its competitive sourcing efforts. OMB Memoranda provided specific reporting requirements for FY 2004 in M-05-01, which was issued on October 15, 2004 and for FY 2005 in M-06-01, which was issued on October 7, 2005.

⁹ Some of the BAU contractor costs are estimates because the Mint arbitrarily split some contractors' costs between the BAU standard competition and another concurrent standard competition entitled Power Industrial Truck. The contractors performed under one contract similar tasks for each standard competition and several of the tasks were performed simultaneously; therefore, we were unable to determine a more accurate distribution of the costs between the two standard competitions.

3 years after it was initiated. We do not believe the Mint will be able to complete the BAU competition by that date.

The Mint reported already spending nearly \$0.5 million in contractual work, training, travel, and employees to compete this standard competition. Currently, a final PWS is not posted and the Mint does not have an estimated completion date for the PWS so that bids can be received. We have little confidence that the Mint will be successful in the effort.

The issues that caused delays and the issues that still need to be addressed are discussed in the sections that follow.

The Contractor-Developed PWS Was Not Used for the Solicitation

A PWS is a statement in the solicitation that identifies the technical, functional, and performance characteristics of an agency's requirements. It should be performance-based and specify essential outcomes to be achieved; the agency's required performance standards; and the location, units, quality, and timeliness of the work.

Circular A-76 allows agencies to provide advisers and consultants in addition to government employees to assist the PWS and Most Efficient Organization (MEO)¹⁰ teams in performing their responsibilities. PWS team members may not be members of the MEO team and MEO team members may not be members of the PWS team. The Mint provided support to the teams by hiring one contractor to assist the PWS team and another contractor to assist the MEO team.

Circular A-76 requires that the PWS team comply with the FAR and Circular A-76 and assist the PWS team leader with (1) developing the PWS, (2) determining GFP, (3) assisting the contracting officer's (CO) development of the solicitation, (4) developing the

¹⁰ An MEO team prepares the staffing plan of the agency tender, developed to represent the agency's most efficient and cost-effective organization for performing an activity.

quality assurance surveillance plan (QASP),¹¹ and (5) implementing the performance decision. One of the requirements placed on the PWS contractor was to develop the PWS and related QASP for the BAU function.

The contractor that the Mint hired to assist with PWS team responsibilities indicated that it had more than 25 years of experience in consulting on Circular A-76 commercial activities studies, with emphasis on studies of manufacturing activities. This contractor developed a draft PWS that we believe contained the required attributes for the PWS. The Mint substantially revised the contractor's draft PWS. The resultant draft PWS no longer included all required attributes and was internally inconsistent, most notably with respect to the manufacturing specifications and acceptance criteria for the coin blanks. The Mint-revised draft PWS was published on the FedBizOpps.gov website¹² on April 12, 2004, for comment and questions.

We reviewed the Mint's draft PWS and advised the Mint in May 2004 that we had concerns about required information that appeared to be missing from the draft or that was misleading. Our concerns about the April 2004 draft PWS included the following:

- The PWS identified "adequate" and "satisfactory" as performance standards. Such vague performance standards did not provide an adequate level of specificity or measurable requirements.
- The PWS lacked a list of definitions and many acronyms were undefined throughout the text of the document.
- The PWS was clearly contradictory on certain points, including what GFE would be offered to potential bidders and the means of inspection and acceptance.

The Mint published another draft PWS on the FedBizOpps.gov website on August 14, 2004, as part of its draft solicitation. This second draft PWS still did not contain all the information or address

¹¹ A QASP is the government's inspection plan. It documents methods used to measure the performance of the service provider against PWS requirements.

¹² FedBizOpps.gov is the website where the government electronically advertises solicitations or requirements.

the comments on the April 2004 draft that we provided to Mint officials in May 2004.

The Draft PWSs Contained Conflicting Specifications for Coin Blanks

Both the April 2004 draft PWS and the August 2004 draft PWS included manufacturing specifications for coin blanks that conflicted with inspection and acceptance specifications. In addition, the August 2004 draft PWS contained conflicting manufacturing specifications for coin blanks. If not corrected in the final solicitation, these deficiencies could discourage potential bidders because a significant number of coin blanks produced would be subject to rejection by the Mint.

Specifically, we found that the April 2004 draft PWS contained differences between the manufacturing specifications in Technical Exhibit-02 and the inspection criteria for the coin blanks in Technical Exhibit-08. In this regard, the draft PWS contained the manufacturing specifications and inspection criteria for five coin denominations—the nickel, dime, quarter, half-dollar, and dollar. Our comparison of the Mint’s 20 manufacturing specifications with its inspection criteria for these five denominations revealed that 7 of the 20 manufacturing specifications (35 percent) differed from the inspection criteria. For two coin denominations (nickel and quarter), no overlap existed between the manufacturing specifications and inspection criteria in the April 2004 PWS, which would effectively result in rejection of all coin blanks produced in those denominations. For two other coin denominations (dime and dollar), the discrepancies were not as significant but could still result in rejection of some of the coin blanks produced according to the manufacturing specifications. In a May 21, 2004, memorandum, we provided comments on the observed deficiencies from our review of the April 2004 draft PWS to the Mint Contracting Officer’s Technical Representative and CO responsible for the PWS.

Our review of the Mint’s August 2004 draft PWS revealed that these previously noted deficiencies were not corrected, and found additional deficiencies in the draft. Specifically, we found that 9 of the 50 manufacturing specifications in the draft PWS, including the

7 with discrepancies noted in the April 2004 draft PWS differed from the inspection criteria.

Additionally, our comparison of the manufacturing specifications for blanks with the fabrication specifications for strip materials – strips are the coiled strips of metal from which blanks are made – identified differences in 70 of 176 (40 percent) of the specifications. As in the cases of the differences we found between manufacturing and inspection criteria for blanks, inconsistencies between manufacturing specifications for blanks and fabrication specifications for strip materials could cause blanks to be rejected. On October 29, 2004, we reported these deficiencies in the draft PWSs in our interim audit report, *OIG-05-002, MANUFACTURING OPERATIONS: Mint’s Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete.*

As we noted in our interim report, the nature and extent of the discrepancies that we found in the two draft PWSs indicate a lack of appropriate quality control or supervisory review by the Mint of the documents before their posting on FedBizOpps.gov for comment and questions.

The Mint reissued a draft PWS on September 16, 2005, and included certain technical exhibits for the blank production specifications. Based on comments, questions, and concerns it received, the Mint has made modifications to the PWS and posted the results on FedBizOpps.gov. The Mint has not issued the technical exhibit for the blank inspection criteria; therefore, we were unable to compare the current blank production specifications with the blank inspection criteria.

The Mint Did Not Obtain the CSO’s Written Approval of Its GFP Justification or Prepare a Written Plan for Use of Potential Excess Space

Circular A-76 requires that an agency determination as to whether GFP is to be offered potential bidders be justified in writing and approved by the CSO (ASM/CFO). Circular A-76 defines GFP as “facilities, equipment, material, suppliers, or other services provided by the government for use by all prospective providers in

the solicitation.” In addition to the Circular A-76’s requirement, the Mint’s Draft Directive MD 2A-2 requires that the CSO provide this written approval in advance of the official announcement of a competitive study.

The April and August 2004 draft PWSs stated that the Mint did not intend to furnish any facilities (space) to a nongovernmental service provider. Both draft PWSs identified certain equipment, including blanking presses, annealing furnaces, washers, dryers, and upsetting mills, which the Mint planned to excess and make available to potential bidders if they chose to bid on the excess equipment.

We reported in October 2004 that the Mint had not prepared a written justification in support of its GFP decisions and, accordingly, had not obtained the CSO’s written approval of these decisions. We recommended that the Mint prepare and obtain written CSO approval of a memorandum justifying the Mint’s GFP decisions. The Mint agreed with our recommendation and indicated that it would provide the GFP justification to the CSO by November 12, 2004. In response to our recommendation, on November 8, 2004, the BAU PWS team leader issued a GFP decision memorandum to the CSO.

The November 8, 2004, GFP memorandum did not address what the Mint intended to do with the space in Mint facilities dedicated to coin blank production if the A-76 standard competition resulted in an award to a contractor. BAU equipment currently occupies approximately one-third of the square footage of the Mint’s Denver and Philadelphia facilities. Mint officials informed us that they intend to use any excess space in the Denver and Philadelphia facilities for storage to reduce off-site storage needs, but they have not developed a written plan for converting these facilities to this – or any other – use.

As noted above, the Mint expressed its intention in the November 2004 GFP memorandum to excess its current BAU equipment. This intention differed from the GFP plans that the Mint had expressed in the April and August 2004 draft PWSs. As discussed later in this report, in April 2005 the Mint requested a deviation from Circular A-76 to restart the standard competition, and OMB granted the

request. As part of the deviation process, the Mint needed to obtain the General Services Administration's approval to excess its BAU equipment rather than offer it as GFP to potential contractors. The Mint did not receive the General Services Administration's necessary approval and now intends to allow potential contractors to use its current BAU equipment as GFP to produce blanks. However, the Mint has neither complied with Circular A-76's requirement for an approved GFP memorandum nor the Mint's Draft Directive MD 2A-2 requirement that the GFP memorandum be approved before the official announcement of the competitive study. Treasury's Competitive Sourcing Manager told us that the CSO plans to wait until later in the process to decide whether or not to approve a GFP memorandum.

By providing a written GFP justification that did not address disposition of excess space and failing to obtain the required CSO written approval of the GFP memorandum it did provide, the Mint has not taken adequate steps to help ensure that its GFP decisions are in the best interest of the government. It also evidences the poor planning by the Mint in undertaking the A-76 standard competition.

The Draft Solicitation Lacks Information on Security Requirements

The Mint Police provide security at all Mint facilities. Inherent in this protection function is the security of coin blanks, which have the same electro-magnetic signature as U.S. coins and may be recognized by vending machines as the equivalent of U.S. coins. The Mint Police provide a single level of security for entire facilities; therefore, blanks are protected at the same physical security level as coins are.

The Mint did not identify any security requirements for protecting coin blanks in the draft PWSs. According to Mint officials, security requirements will be included in the PWS in the formal solicitation, scheduled for release sometime in 2006. We believe that failure to include security requirements in the draft PWSs further demonstrates the Mint's inadequate planning and implementation of the competitive sourcing process.

The Mint Did Not Finalize or Comply with Its
Draft Directive for Circular A-76 Competitions

The Mint showed a clear understanding of Circular A-76's requirements when it developed Draft Directive MD 2A-2, "Performance of Commercial Activities," dated October 2003, which proposed policy for implementing Circular A-76. If the Mint had effectively complied with all of the draft directive's requirements, it should not have overlooked or mishandled several of Circular A-76's requirements.

Among the provisions of the Policy Section of the draft directive, are the following:

- The Mint's Office of Competitive Sourcing (OCS) will conduct study feasibility analyses to determine which activities would be the best candidates for competitive sourcing studies because of their potential for process improvements and cost savings.
- Prior to the official announcement of a study, OCS will complete all preliminary planning activities as outlined in Circular A-76.

In addition, Section 7 of MD 2A-2 states, all policy statements listed in Section (4) of this directive are considered critical requirements for implementing the U.S. Mint's competitive sourcing program.

While the draft directive contained many of Circular A-76's major requirements, the Mint's management has neither finalized MD 2A-2 nor issued replacement guidelines for conducting and preparing for Circular A-76 streamline and standard competition processes in the nearly 3 years since the BAU standard competition began.

Despite a clear understanding of necessary steps to take before the announcement of a standard competition, as demonstrated in the instructions in MD 2A-2, the Mint (1) did not conduct feasibility analyses of the BAU activities, (2) did not complete all of the items required to be completed before the formal announcement of the standard competition, and (3) has not adequately managed the standard competition.

The Mint Requested a Deviation from Certain Circular
A-76 Requirements after the Allowed Time Period

On April 20, 2005, the Mint through the CSO proposed to OMB a deviation from Circular A-76's standard competition requirements. Circular A-76 requires the CSO to request and obtain written approval from OMB for any deviations from Circular A-76. If OMB approves a deviation, the agency is required to include the approved deviation in the public announcement and solicitation for a standard competition. Treasury made the public announcement of the BAU standard competition on October 23, 2003. Treasury did not formally request a deviation from Circular A-76 until more than 18 months after the public announcement, which is contrary to the requirement to include the approved deviation in the public announcement.

The deviation would allow the Mint to solicit coin blanks as a supply item from private providers, instead of soliciting the service of converting strip into coin blanks. Among other things, this would mean that private providers would supply the strips used to produce blanks (purchasing them from private suppliers unless they produced strips themselves) instead of performing BAU services on Mint-supplied strips. The MEO proposal, however, would continue to be for provision of BAU services on Mint-supplied strips. The competition would therefore be transformed from a comparison of the cost of services among public-sector and private-sector service providers to a make-buy decision.

In the proposed deviation request, the Mint stated that it "will establish a solicitation package with quality specifications, delivery requirements, and forecasted demand. Each potential bidder will submit a bid per denomination with the expectation that it will receive a percentage between 60% - 40% of the business based on price. The intent was that if the work was moved to the private section, two geographically separate contractors would be awarded contracts to provide the Mint with blanks. The agency tender will be valued using actual calculated overhead costs."

On July 14, 2005, OMB approved the deviation, with the following requirements:

-
- The Mint was to deviate from the Circular only to the extent necessary to conduct a comparison between the agency tender and combined private-sector offers.
 - The Mint was to reannounce the competition in FedBizOpps.gov and describe the procedures to be followed pursuant to this deviation.
 - The Mint was to conduct vendor outreach and publish the draft statement of work on FedBizOpps.gov to give prospective private sector bidders and the incumbent in-house provider, the MEO, an opportunity to comment. In this regard, OMB directed the Mint to do the following:
 - a. At a minimum, the Mint was to hold a pre-bidders conference. OMB also encouraged the Mint to host a website to allow for posting of questions and answers.
 - b. The Mint was to specifically seek feedback on its intention to limit any one private-sector provider's participation to no more than 60 percent of the government's needs.
 - c. The Mint was to advise OMB of the general feedback to its draft PWS, including any concerns raised by the private sector that might discourage their participation in the competition and steps taken to address the concerns. In this regard, the Mint was instructed to build sufficient time into its competition timeline to give meaningful consideration to any such concerns.

On September 16, 2005, the Mint issued a draft solicitation that encompassed the changes it obtained through its deviation request and that included the OMB requirements noted above.

The Mint completed its analysis of the questions and comments received in response to the September 2005 draft solicitation and posted the responses on November 10, 2005. Treasury has advised OMB regarding the general feedback to the PWS in the September 2005 draft solicitation and the results of visits made by potential bidders to the Mint's two production facilities.

The Mint, however, is continuing to revise its schedule for completing the competition study and has not developed a written plan for how it will compare and evaluate the bids per

denomination from potential bidders with the MEO tender. We believe that a written plan is essential to ensure a fair competition.

Management Response

The Mint agreed that it did not request its deviation in a timely manner because of difficulties in defining performance elements and in deciding the optimal way to treat government-furnished property to meet the intent of comparing the cost of buying plachets to the cost of producing plachets in-house. Once the Mint resolved these issues, it requested and received approval from OMB for a deviation. Since the deviation was not approved before the initial competition was announced, the deviation was requested and approved then the solicitation was re-issued, which the Mint believes improved the solicitation. The deviation required the Mint to issue a new public announcement and solicitation that included the OMB-approved deviation; however, the Mint believes that OMB's approval of the deviation made the Mint's non-compliance with Circular A-76 moot.

OIG Comment

We agree with the Mint that it did not comply with the Circular A-76 requirements regarding a deviation because of difficulties it experienced in complying with all of the Circular A-76 requirements. We continue to believe that if the Mint had adequately planned the BAU competition and timely complied with the Circular A-76's requirements, the Mint would likely not have had to request a deviation; therefore, we believe this supports our conclusion that the Mint did not perform adequate initial planning.

The Mint Did Not Obtain the CSO's Written Approval for Including a Performance Bond Requirement

Circular A-76 requires that the CO obtain prior written approval from the CSO if an agency solicitation requires a private sector source to acquire a performance bond. A performance bond provides the government an element of protection from financial loss from contractor nonperformance because an insurance company issues the performance bond that guarantees a contractor's satisfactory completion of a project.

The Mint's reissued draft solicitation in September 2005 included a requirement for a performance bond. Our review of this draft PWS revealed that this was a new requirement not contained in previous draft PWSs. As of the date of this report, the Mint has not received written approval from the CSO for inclusion of a performance bond requirement.

Management Response

The Mint stated that OMB Circular A-76, Appendix B, para. D3a(10), states, "*If* an agency requires a private sector source to include a performance bond, the CO shall obtain prior written approval from the CSO" (emphasis added). The Mint believes that this issue raised by this finding is not pertinent because the Mint has not issued a solicitation that "requires a private sector source to include a performance bond" requirement; indeed, the agency has not yet issued any solicitation. The Mint stated further that it wanted industry feedback on a possible Performance Bond requirement before issuing a final solicitation; and believes it has benefited from feedback received as a result of including this requirement in the draft solicitation. The Mint stated that, *if* the United States Mint determines that the work "requires a private sector source to include a performance bond," the agency will, of course, obtain the CSO's approval before issuing a solicitation that includes such a requirement.

OIG Comment

We do not agree with the Mint's response because to date the Mint has only issued draft BAU documents and solicitations and in its draft solicitation cover document the Mint stated that it intended to issue a formal solicitation on October 24, 2005. This cover document clearly stated that it was a draft solicitation document, but did not state that the Mint only included the performance bond requirement because it wanted industry feedback. In our opinion, the Mint's draft solicitation document informed all private sources that it was likely the Mint's intent to require a performance bond; therefore, we believe the CSO's prior approval should have been obtained.

The Mint's Estimate of Time Required to Move BAU Equipment to Supply Contractors' Facilities May Not Be Sufficient

The Mint is offering its existing BAU equipment for use by all potential bidders – in-house by the MEO team and outside by supply contractors. The Mint currently has 11 separate BAU production lines located at its production facilities, in Denver and Philadelphia. Each line consists of the BAU equipment necessary to convert the raw material called strip, which is supplied by strip manufacturers, into individual coin blanks for each denomination of coin.

The Mint's draft September 16, 2005, solicitation provided that if the work is awarded to the private section, the Mint would transfer the BAU equipment to the successful bidders in 6 months. Mint officials informed us that approximately 6 months would be required to disassemble each line, transport it to a new location, assemble and install it, and test it. Based on the amount of time necessary to move one line and the need to move only two lines at once in order to maintain production capacity, we estimate that it could take up to 3 years to relocate all current BAU production equipment. Therefore, the Mint's proposed 6-month transition timeframe for contractors does not appear reasonable.

Management Response

The Mint responded that the Phase-In Period will ultimately be that which is proposed by the successful providers of the supply or service. The Mint further indicated that its estimate was an approximation based on the information available prior to obtaining the feedback and, as such, the agency always had anticipated the need to make adjustments. With the benefit of this feedback, the agency agrees with the finding and, indeed, would acknowledge that the agency's estimate was, in fact, not sufficient.

OIG Comment

We agree with the Mint's comment that this feedback is beneficial to the Mint; however, it appears that the Mint intends to accept the successful providers' estimates for the phase-in period rather

than determining the phase-in period that best supports the Mint's mission.

The Mint Responded to More Than 300 Questions, Concerns, and Comments from Interested Parties

The Mint responded to more than 337 questions, concerns, and comments it received on the September 16, 2005, draft solicitation, associated technical exhibits and attachments, site visits, and a pre-bidders conference. The Mint reported that "the great majority of the questions were answered; however, a very small number remain works in progress."

The questions, concerns, and comments ranged from relatively simple matters to more serious concerns about issues that could cause further delays or protests of the final selection if not timely and fully addressed. We found that the items and corresponding responses fell into the following general categories (some items had multiple parts, and we counted each part as a separate item):

- The Circular A-76 process (20)
- Government contracting and contract performance (26)
- GFP (105)
- GFP utilities requirements (32)
- Personnel needs (5)
- Raw materials and strip (22)
- Solicitation (113)
- Security (6)
- Transportation (16)

Some of the more significant issues raised involved GFP, the draft solicitation, and security requirements. Some sample GFP items were:

- It was asked how will it be determined which company receives what equipment;
- Will there be equipment provided to the companies for the destruction of condemned blanks;
- What type of equipment is required to treat the waste water stream and will it be included in the GFE;
- What security equipment is required;

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- Please clarify the justification for the GFP decision in light of the risk of having a significant amount of wasted square footage in the event the contractors win; and
 - Will quality test equipment be supplied as part of the GFE?

Some examples dealing with the draft solicitation included:

- Changing the proposed closing date for the formal solicitation changed to June 30, 2006 (which represents an approximately 6-month extension of the previously estimated closing date);
- Auditing of cost information should not be necessary in I.36¹³ because the solicitation is a competitive bid process, not a cost plus arrangement; what is the time-line for the balance of the draft solicitation;
- Since numerous dates were offered during the site visits, is there an estimated time-line for the formal solicitation process? The Mint's response was that it expected to make a performance decision in the first quarter of calendar year 2006; and
- The two existing strip manufacturers, both of whom have expressed an interest to the Mint in competing for the BAU work. The Mint's September 16, 2005, draft solicitation requires outside vendors, if selected, to acquire metal strip independent of the Mint's current strip contracts. The MEO would continue to use the Mint's current strip contracts. Potential vendors other than the two current strip manufactures would therefore have to independently obtain metal strip. The two current strip manufacturers could price other potential bidders out of competition by increasing the cost of the strip so that only those two strip manufacturers could submit competitive bids.

Some security items included:

- What are the security requirements for:
 - Physical plant, fences, etc.
 - Inside the operations, employees, visitors, etc.

¹³ The solicitation's section I.36, Audit and Records, reserves the right for the CO to examine and audit the Contractor's documentation to evaluate the cost or pricing data submitted and all costs claimed to have been incurred or anticipated to be incurred in performing this contract.

-
- Defined security plan?
 - What are the security requirements for each denomination and facilities?
 - Will more information regarding security be included in the final solicitation?

Subsequent to the Mint answering the questions, concerns, and comments from the previous site visits and draft PWS, the Mint issued another draft PWS in December 2005. Another 139 questions were received from potential bidders. The Mint will not issue a final solicitation until these additional questions are answered.

Management Response

The Mint responded that the volume of questions received reflects both the interest by all concerned and the complexity of this competition. Management believes that many questions were excellent and helped the Mint improve the solicitation; others were duplicative; still others required the Mint to simply clarify a relatively straightforward issue. The Mint stated that it responded to every question and concern, posted those responses, and incorporated them into the body of the draft solicitation package that was posted.

OIG Comment

We agree with the Mint's comment; however, we believe that had the Mint performed adequate preliminary planning many of the questions or areas of concern would likely not have occurred and the time required to be spend answering the same or similar questions or areas of concern would likely have been reduced.

ATO Questions and Concerns Need Attention

The ATO (Mint official responsible for the MEO bid to retain the BAU function in-house) raised the following questions and concerns on the approved deviation and the September 16, 2005, draft solicitation:

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- The deviation provided that the Mint compete two outside supply contracts against the MEO as one service contract, “which creates many disparities and complications in the areas of performance measurement, quality control and production flexibility in meeting a supply vs. services contract.” These mandates could ultimately create a significant discrepancy between the supply contractors’ actual cost submission (which could be a higher amount) and the supply contractors’ comparison costs (which could be significantly lower due to adjustments made by the CO to adjust for OMB’s deviation approval requirements and the GFP and GFE restrictions mandated in the solicitation).
 - The purpose of the standard competition is to ensure that public-private competition is used effectively to reduce costs associated with the production of coin blanks. Since the supply contractors are prohibited from utilizing the government’s facilities but are being offered GFE, many of the potential supply contractors’ actual costs to produce coin blanks (such as transportation of equipment to their facilities and of coin blanks back to the Mint — both significant costs) might not be considered when their bids are compared to the Mint’s bid during the cost comparison.
 - With all of the references to reducing the Mint’s BAU operating costs, the ATO expressed concern about the preliminary planning to determine the baseline costs. The Mint responded that it would update the baseline costs.
 - While the MEO developed its agency tender nearly 2 years ago, the Mint’s current schedule only provides outside bidders 11 weeks to prepare their bids. According to Mint officials’ responses at the pre-bidders conference, the Mint has no plans to extend the timeframe despite concerns raised by the vendors. A vendor could appeal a decision based on an assertion that the timeframe did not allow sufficient time to prepare an accurate bid.
 - Another concern among potential supply contractors could be the cost of moving the BAU equipment to contractors’ facilities and transporting the finished coin blanks from the contractors’ facilities to the Mint’s facilities. A potential vendor could appeal a decision based on an “un-level playing field” because contractors would bear these transportation costs while the MEO would not. If such costs are not considered during the

competition, however, the result could be exclusion of millions of dollars in contractor expenses to produce coin blanks.

Management Response

The Mint responded that it considered all the ATO's concerns and incorporated a number of items into the solicitation; however, many of the questions and concerns raised issues as to the viability of the OMB-approved deviation. These issues were raised, and the Mint claimed it analyzed and thoroughly considered in the vetting and approval process for the deviation. Accordingly, the Mint believes that, once the deviation was approved, these issues effectively were subsumed in, or dismissed by, the decision to grant the deviation. At that point, these concerns became no more actionable than concerns raised by interested parties during the public comment period prior to OMB's promulgation of the revised Circular A-76.

OIG Comment

We do not agree with the Mint's comment because we only cited the ATO's questions and concerns that were submitted during the comment period after the Mint had already received the OMB approved deviation and issued a draft solicitation that included the deviation.

Conclusion

The Mint has reported spending nearly \$0.5 million on the BAU standard competition in fiscal years 2004 and 2005 and has incurred additional costs in fiscal year 2006. To date the Mint has not received any benefits from the standard competition and does not have a realistic ending date established. Based on the significant actions needed by the Mint to address the conditions in this finding, we have little confidence that the Mint can bring the BAU A-76 standard competition, as currently designed, to a successful conclusion within a reasonable period of time. Many of the problems can be attributed to a lack of sufficient planning, as required by Mint Draft Directive MD 2A-2, before the standard competition was announced in October 2003, and planning continued to be problematic as the Mint shifted its approach to the

standard competition several times during the ensuing nearly 3 years.

Management Response

The Mint acknowledged to having spent over \$.5 million on the BAU competition, but it disagrees with the report's conclusion that it has not received any benefits to date. Aside from a wealth of knowledge gained on the process by both the MEO and PWS Teams, the Mint believes it solidified the need to approach this competition differently, which resulted in the request to OMB for a deviation to Circular A-76.

OIG Comment

We do not agree with the Mint's comment because the Mint has not completed the BAU standard competition, which is required to be completed within a year of the public announcement. Over 3 years will have transpired between the Mint's announcement of the initial BAU standard competition and its plan to complete a business case analysis by December 31, 2006. If the business case analysis indicates that the BAU competition should be completed, we believe it will likely take the Mint another 6 to 12 months to complete the standard competition or about 4 years after it embarked on competition. While the Mint may have gained a wealth of knowledge from this process, we are unsure if that will be enough to mitigate the fact that it required so long to complete the standard competition.

Recommendation

We recommend that the Mint Director expeditiously complete a formal business case analysis to determine whether the activity should continue to be competed. If the business case analysis shows that it is still warranted, the Mint should continue with the standard competition. If the business case analysis shows that it is not warranted, the Mint should work with the Department to cancel the BAU standard competition.

Management Response

The Mint agrees with our recommendation. It responded that it is developing a business case analysis to determine if the best course of action is to proceed with the BAU competition or take alternative action to ensure that the Mint makes or purchases planchets as efficiently and cost-effectively as possible. Several alternatives would be analyzed, and the business case analysis will be forwarded to the Department for feedback. Once a decision is made regarding how to proceed, the Mint will implement the results of the decision. If a decision is made to discontinue the competition, we will work with the Department to cancel it. If another decision is made, we will work with all necessary parties to implement the required action in an expeditious manner. Mint's management is targeting December 31, 2006, for the completion of the business case analysis and obtaining a final determination.

OIG Comment

The action proposed by the Mint satisfies the intent of our recommendation. If possible, the Mint should complete its business case analysis as quickly as possible and expediently implement the decision. If this analysis shows that the BAU competition is still warranted, the Mint should expediently implement the standard competition after completing appropriate and thorough planning, and addresses the deficiencies noted in our report. If this analysis shows that the BAU competition is not warranted, the Mint should work with the Department to expediently cancel the BAU standard competition.

* * * * *

We appreciate the cooperation and courtesies extended to our staff. If you have any questions, please contact me at (202) 927-5904.

Thomas E. Byrnes
Director, Procurement Audits

Objectives

The study objectives were to: (1) determine whether the Mint had taken corrective actions to address the five recommendations we made in our October 29, 2004, Interim Audit Report, OIG-05-002, *MANUFACTURING OPERATIONS: Mint's Standard A-76 Competition Study for the Preparation of Ready-to-Coin Planchets Is Delayed and Requires Significant Actions to Complete*; (2) determine the current status of the Mint's BAU standard competition; and (3) determine whether the BAU costs reported for fiscal years 2004 and 2005 were accurate and complete. Although we did not review the Power Industrial Truck Circular A-76 standard competition, some of its fiscal year 2004 costs were intertwined with BAU standard competition costs and are referred to, as necessary, in this report.

Scope

We began this phase of our study in November 2004. This report covers Mint activities related to BAU Circular A-76 activities through March 2006.

Methodology

As part of our fieldwork, we visited the Mint's Washington, D.C., headquarters; the Mint manufacturing facility in Denver, Colorado; and Treasury's Departmental Offices. We interviewed key personnel involved in the Circular A-76 BAU standard competition and reviewed contract file and other relevant documentation. We also interviewed a key member of the staff of the support contractor hired to help Mint personnel conduct the Circular A-76 competition. Additionally, we reviewed the Mint's timeline and progress to assess whether it was meeting the required time limits for Circular A-76 standard competitions and the deviation approved by OMB.

We conducted our audit in accordance with generally accepted government auditing standards.

Circular A-76 requirements for federal agencies include the following:

- Inventory all activities performed by government personnel as either commercial or inherently governmental.
- Perform a public-private competition to determine if government personnel should perform a commercial activity.
- Before the public announcement of a standard competition, complete, at a minimum, the following preliminary planning steps:
 1. **Scope**—determine the activities and full-time equivalent position to be competed.
 2. **Grouping**—conduct preliminary research to determine the appropriate grouping of activities as business units.
 3. **Workload Data and Systems**—assess the availability of workload data, work units, quantifiable outputs of activities or process, agency or industry performance standards, and other similar data. Establish data collection systems as necessary.
 4. **Baseline Costs**—determine the activity’s baseline costs as performed by incumbent service provider.
 5. **Type of Competition**—determine whether to use a streamlined¹⁴ or standard competition.¹⁵
 6. **Schedule**—develop preliminary competition and completion schedules.
 7. **Roles and Responsibilities of Participants**—determine roles and responsibilities of participants in the process and their availability for the duration of the competition.
 8. **Competition Officials**—appoint competition officials.
 9. **Incumbent Service Provider**—inform any incumbent service providers of the date that the public announcement will be made.
- Apply the FAR, in conjunction with Circular A-76, for streamlined and standard competitions and comply with

¹⁴ A streamlined competition is generally used when the number of full-time equivalents is 65 or fewer.

¹⁵ A standard competition is generally used when the aggregate number of full-time equivalents exceeds 65.

procurement integrity, ethics, and standards of conduct rules.

- Designate, in writing, an assistant secretary or equivalent-level official with responsibility for implementing Circular A-76, hereafter referred to as the CSO. For the BAU competitive study, the CSO is the ASM/CFO of Treasury. Except as otherwise provided by Circular A-76, the CSO may delegate, in writing, specified responsibilities to senior-level officials in the agency or agency components.

One of the CSO's responsibilities that may not be delegated is the requirement to notify OMB if the agency does not complete the competitive study within the established 12-month timeframe. Another responsibility that the CSO may not delegate is to receive prior written OMB approval to deviate from Circular A-76 (e.g., time limit extensions, procedural deviations, costing variations for a specific streamlined or standard competition, inventory process deviation). According to Circular A-76, "Agencies shall include any OMB approved deviations in the public announcement and solicitation for a streamlined or standard competition."

- Post on SHARE A-76, which is the Department of Defense A-76 knowledge management systems used to share knowledge, information, and experience about public-private competitions, lessons learned and best practices resulting from a competition process.

Key personnel in the OMB A-76 process include the following:

- The ATO is an inherently governmental agency official with decision-making authority, is responsible for the agency tender, leads the MEO, and represents the agency tender during source selection.
- The CO is an inherently governmental agency official participating on the PWS team and is responsible for the issuance of the solicitation and the source selection evaluation methodology.

- The CSO is an inherently governmental agency official responsible for the implementation of Circular A-76 within the agency.
- The Human Resource Advisor is an inherently governmental agency official and is a human resource expert to assist the ATO in developing the agency tender.
- The MEO Team is a group of individuals comprising technical and functional experts and formed to assist the ATO in developing the agency tender.
- The PWS Team, led by a team leader, is responsible for developing the PWS, determining whether to offer GFP, assisting the CO with the solicitation, developing the QASP, and implementing the performance decision. The PWS team leader makes all final management decisions regarding the PWS, GFP, and the QASP.



DIRECTOR
OF THE
MINT

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D.C. 20220

August 14, 2006

MEMORANDUM FOR THOMAS E. BYRNES
DIRECTOR, PROCUREMENT AUDITS
DEPARTMENT OF THE TREASURY
OFFICE OF INSPECTOR GENERAL

FROM: David A. LeBryk
Acting Director
United States Mint

SUBJECT: Draft Audit Report "MANUFACTURING OPERATIONS:
The Mint Should Complete a Formal Business Case Analysis
then Take Appropriate Action"

The United States Mint has reviewed the Treasury Department Office of Inspector General (OIG) draft audit report "**MANUFACTURING OPERATIONS: The Mint Should Complete a Formal Business Case Analysis then Take Appropriate Action.**" The following comments on the report's findings/conclusions/recommendations are forwarded for your consideration.

Finding #1: "The Mint Did Not Properly Plan and Has Not Properly Implemented Its BAU Standard Competition."

United States Mint Response: The United States Mint acknowledges that better preliminary planning efforts would have led to a more expeditious completion of its complex A-76 public-private competition on blanking, annealing and upsetting (BAU) coin planchets. For example, planning prior to competition announcement could have been more extensive. However, the United States Mint was responding to an inquiry by a Congressional committee regarding the feasibility of purchasing ready-made blanks, and was attempting to be responsive to the President's Management Agenda goal of opening additional commercial activities to public-private competition. Although the United States Mint did not conduct a formal business case analysis to determine the advantages and disadvantages of conducting a competition, and the optimal method for performing the competition, it did conduct examinations, reviews and inquiries of the BAU activity prior to competition announcement. This led senior management to a consensus that approximately 30% savings could be obtained by performing a competition, and the United States Mint proceeded to implement a standard competition.

United States Mint

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Because of a lack of experience with the Office of Management and Budget (OMB) Circular A-76 (revised May 29, 2003), as well as the complexity of conducting a public-private competition on this particular commercial activity, the United States Mint found it necessary to make modifications during the course of the competition. Using lessons learned, modifications were made, and a deviation from certain Circular A-76 requirements was requested and received from the Office of Management and Budget. Since that time, we have continued to make improvements to ensure that the final solicitation and resulting competition result in completion of a fair and effective competition that meets the intent of OMB Circular A-76 and complies fully with the terms of the deviation granted by OMB.

The following are United States Mint responses to items related to Public-Private Competition under the OMB Deviation cited in Finding #1.

"The Mint requested a Deviation from Certain Circular A-76 Requirements after the Allowed Time Period"

United States Mint Response: The United States Mint agrees that it did not request its deviation in a timely manner. This resulted from difficulties in defining performance elements and in deciding the optimal way to treat government-furnished property in order to meet the intent of comparing the cost of buying planchets to the cost of producing planchets in-house. Once these issues were resolved, the United States Mint requested and received approval from OMB for a deviation. While the deviation was not approved before the competition was announced, it was requested and approved before the solicitation was re-issued, and we believe that the solicitation was improved as a result of the action taken. In any event, the deviation was approved by OMB which, as the proponent of Circular A-76, has plenary authority to grant deviations from the Circular—including deviations from the time requirements. Because OMB consciously approved the requested deviation after the period allowed for in OMB Circular A-76, par. 5c, the approved deviation necessarily included an implicit deviation to that provision as well. Moreover, because the deviation required the United States Mint to issue a new public announcement and solicitation that included the OMB-approved deviation, and the United States Mint proceeded in full compliance with this requirement, any temporal deficiency in the agency's request for deviation was effectively ratified or waived by OMB, thereby rendering the issue raised by this finding moot.

"The Mint Did Not Obtain the CSO's Written Approval for Including a Performance Bond Requirement"

United States Mint Response: OMB Circular A-76, Appendix B, para. D3a(10), states, "*If* an agency requires a private sector source to include a performance bond, the CO shall obtain prior written approval from the CSO" (emphasis added). This issue raised by this finding is not pertinent because the United States Mint has not issued a solicitation that "requires a private sector source to include a performance bond"; indeed, the agency has not yet issued any solicitation. The United States Mint wanted industry feedback on a possible Performance Bond requirement before issuing a final solicitation. It has

benefited from feedback received as a result of including this requirement for comment in the draft solicitation. However, if the United States Mint determines that the work “requires a private sector source to include a performance bond,” the agency will, of course, obtain the Competitive Sourcing Official’s (CSO’s) approval before issuing a solicitation that includes such a requirement.

“The Mint’s Estimate of Time Required to Move BAU Equipment to Supply Contractors’ Facilities May Not Be Sufficient”

United States Mint Response: Part of the preliminary planning process of posting draft solicitations was to obtain feedback on the requirements. The United States Mint’s estimate was an approximation based on the information available prior to obtaining the feedback and, as such, the agency always had anticipated the need to make adjustments. With the benefit of this feedback, the agency agrees with the finding and, indeed, would acknowledge that the agency’s estimate was, in fact, not sufficient. However, that an estimate was not correct and requires refinement is not a deficiency in the process; rather, it is a part of the process and, accordingly, is not a relevant basis for the finding. In any event, as a result of the feedback received, the United States Mint has modified the wording of its draft solicitation. The United States Mint will amend the final solicitation to reflect a target date, but allow all suppliers and the Most Efficient Organization (MEO) Team to propose their own Phase-In Period time. The Phase-In Period will ultimately be that which is proposed by the successful providers of the supply or service.

“The Mint Responded to More Than 300 Questions, Concerns, and Comments from Interested Parties”

United States Mint Response: The volume of questions received reflects both the interest by all concerned and the complexity of this competition. Many questions were excellent and helped us improve the solicitation; others were duplicative; still others required us to simply clarify a relatively straightforward issue. The United States Mint responded to every question and concern, posted those responses on its FedBizOps webpage and incorporated them into the body of the draft solicitation package that was posted.

“ATO Questions and Concerns Need Attention”

United States Mint Response: The United States Mint has considered all the concerns noted by the Agency Tender Official (ATO). It has incorporated a number of items into the solicitation to further address concerns expressed by the ATO. However, many of the ATO’s questions and concerns raise issues as to the viability of the OMB-approved deviation. These issues were raised, analyzed and thoroughly considered in the vetting and approval process for the deviation. Accordingly, once the deviation was approved, these issues effectively were subsumed in, or dismissed by, the decision to grant the deviation. At that point, these concerns became no more actionable than concerns raised by interested parties during the public comment period prior to OMB’s promulgation of the new Circular.

Appendix 3
Management Response

Conclusion: *“The Mint has reported spending \$.49 million on the BAU standard competition in fiscal years 2004 and 2005...To date the Mint has not received any benefits from the standard competition...”*

United States Mint Response: The United States Mint concedes to having spent over \$.5 million on the BAU competition, but it disagrees with the report’s conclusion that it has not received any benefits to date. Aside from a wealth of knowledge gained on the process by both the MEO and Performance Work Statement (PWS) Teams, it solidified the need to approach this competition differently, which resulted in our request to OMB for a deviation to OMB Circular A-76 (revised May 29, 2003).

Recommendation: *“We are recommending that the acting director of the Mint expeditiously complete a formal business case analysis to determine whether the activity should continue to be competed. If the business case analysis shows that it is still warranted, continue with the standard competition. If the business case analysis shows that it is not warranted, work with the Department to cancel the BAU standard competition.”*

United States Mint Response: The United States Mint concurs with the recommendation and is developing a business case analysis to determine if the best course of action is to proceed with the BAU competition or take alternative action to ensure that the United States Mint makes or purchases planchets as efficiently and cost-effectively as possible. Several alternatives are being analyzed, and a discussion draft of the business case analysis has been forwarded to the Department for feedback. Once a decision is made regarding how to proceed, we will implement the results of the decision. If a decision is made to discontinue the competition, we will work with the Department to cancel it. If another decision is made, we will work with all necessary parties to implement the required action in an expeditious manner. Because of the complexity of the analysis, we are targeting December 31, 2006, for a determination.

Appendix 4
Major Contributors To This Report

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The Department of the Treasury

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Office of Accounting and Internal Control

United States Mint

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